

Quarterly Economic and Financial Developments Report

September 2020

*Featuring the latest Lending Conditions Survey for
the First Half of 2020*

Research Department



Domestic Economic Developments

Preliminary indications are that the domestic economy contracted over the first nine-months of 2020, dominated by the coronavirus (COVID-19) pandemic, as globally imposed travel restrictions adversely impacted tourism output. However, the resumption of foreign investment-led projects and post hurricane rebuilding works, provided some impetus to construction.

Real Sector

- Indications are that tourist arrivals reduced by 61.9% during January-July, 2020 vis-à-vis a 13.2% growth in the same period of 2019. Air and sea traffic were largely eliminated, due to ongoing globally imposed travel restrictions related to COVID-19.
- The resumption of varied-scale FDI projects and hurricane rebuilding efforts provided support to the construction sector.

Monetary Sector

- For the nine months to September, the growth in liquidity moderated amid an increase in domestic credit, which exceeded the rise in deposits.
- External reserves grew over the nine-month period to \$2.1 billion.

An aerial photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a deeper blue further out. The beach is a wide, white sand strip with several palm trees scattered along the shore. In the foreground, there are more palm trees and some buildings, possibly part of a resort. The sky is clear and bright.

TOURISM SECTOR

Visitor Arrivals

(January – July 2020 vs. 2019)

On July 1, 2020 the borders were re-opened, permitting international travel after being closed since March 27, 2020. However, a second wave of COVID-19 cases on Grand Bahama and New Providence, led to subsequent lockdowns and restrictions, starting in July.

As a result, official data from the Ministry of Tourism revealed that total visitor arrivals declined by 61.9% over the January to July period, reversing the 13.2% increase over the same period of 2019.

- Air arrivals (indicative of stopover business) fell by 68.5%, a reversal from the 14.6% expansion in 2019.
- Sea arrivals declined by 59.6%, vis-à-vis a 12.7% growth in 2019.

	New Providence (% Change)		Grand Bahama (% Change)		Family Islands (% Change)	
	2019	2020	2019	2020	2019	2020
Arrivals						
Air	18.5	-66.2	-9.1	-79.8	6.5	-74.9
Sea	20.7	-66.3	-10.2	-73.0	10.8	-46.3
Total	20.0	-66.3	-10.1	-73.7	10.1	-50.8

Global Tourism Sector Update: Cruise Ships Industry

With COVID-19 pandemic travel restrictions globally, activity in the cruise ship industry has sharply contracted.

- In March 2020, The US Centers for Disease Control and Prevention (CDC) issued a “no sail” order to major cruise lines sailing out of the US, that remains in place until at least November 2020.
- The global lull in cruise travel has led some operators to accelerate the removal of less efficient vessels from their fleet, sending them to Turkish ship breaking yards to be dismantled and sold for scrap parts.
- However, in late September, the Cruise Lines International Association stated that the industry was the first in the travel and tourism sector to commit to worldwide pre-embarkation testing of all passengers and crew.

Source: Reuters, USA Today



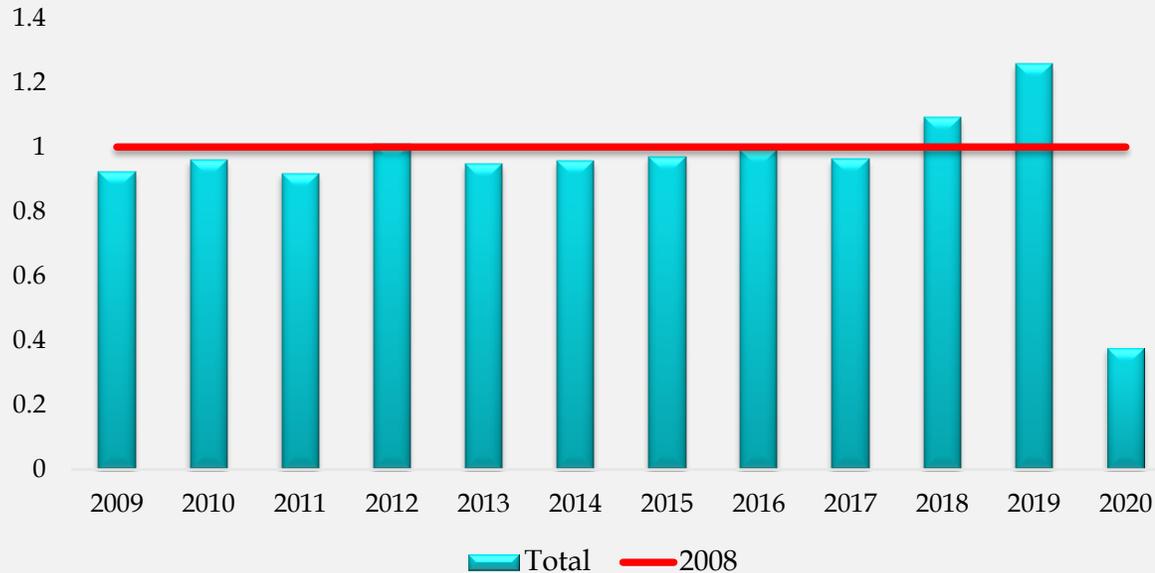
Source: www.Bahamas.com Photo from Prince George Dock

Nassau Airport (NAD) International Departures (January - September 2020 vs. 2019)

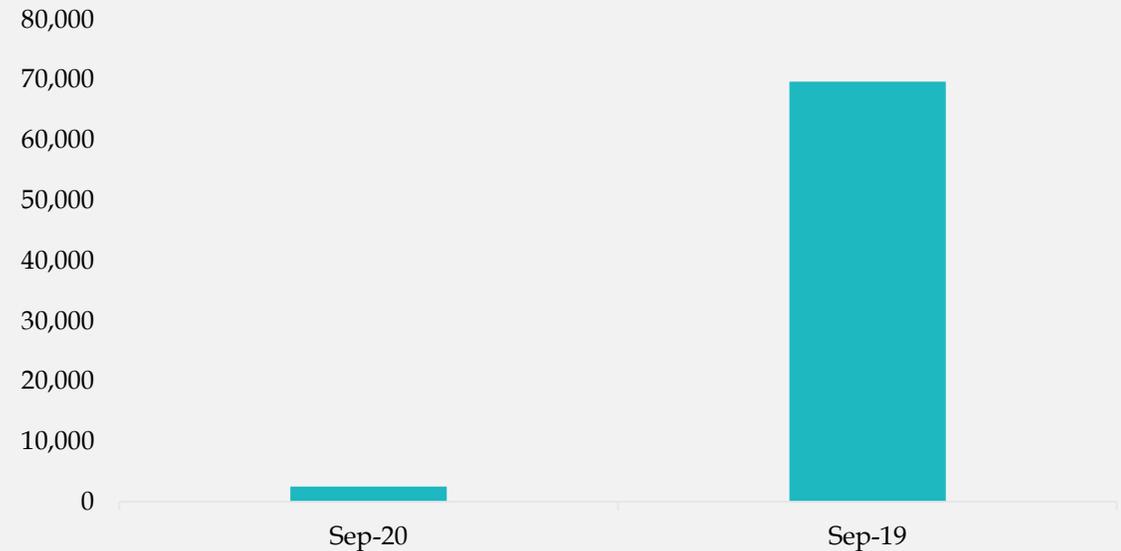
The latest data from NAD showed that total visitor departures fell sharply by 70.0% for the nine-months to September. This exceeded the Hurricane Dorian induced 9.2% decline in 2019; and was well below the 2008 global recession level.

Attributed to globally imposed travel restrictions, total international departures for September, 2020 amounted to 2,526 vis-à-vis 69,729 in September, 2019.

**Departures vs. 2008 Recession
January-September**



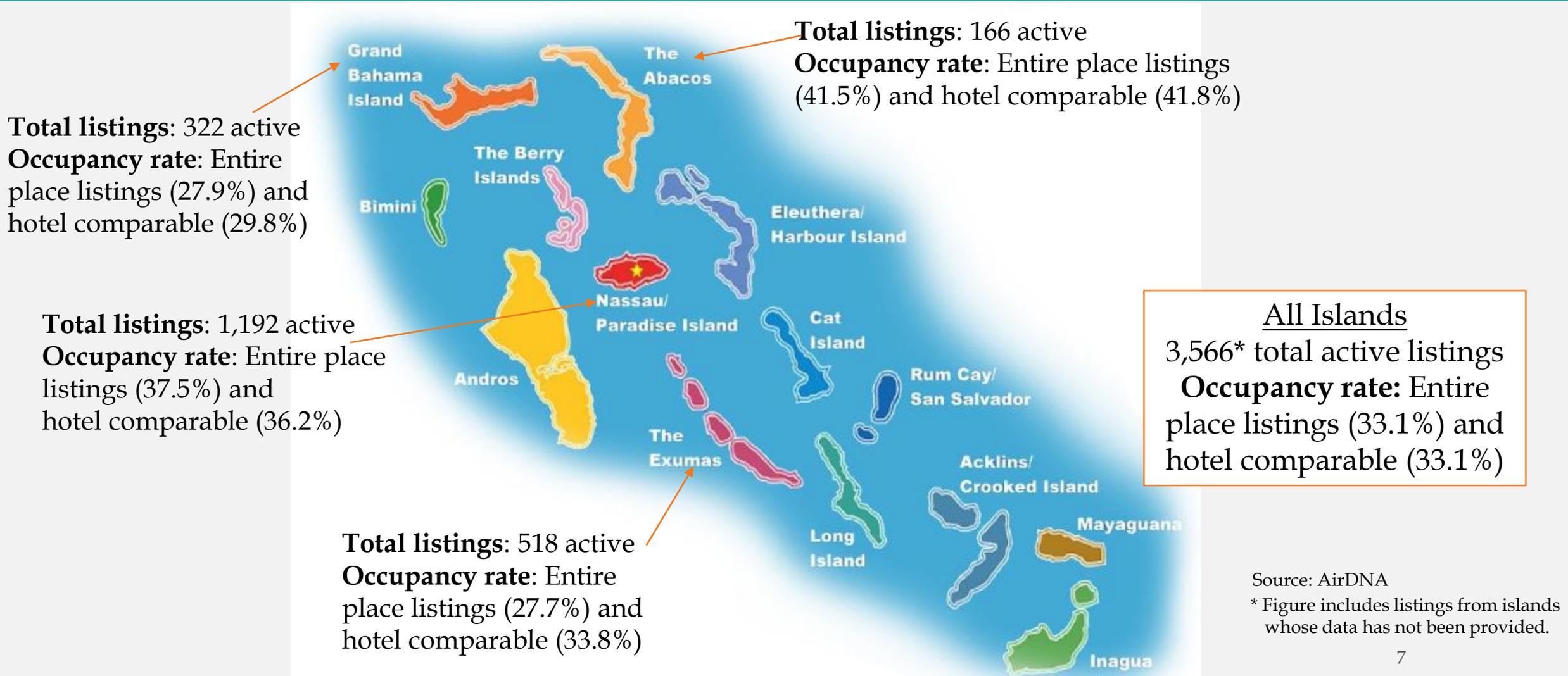
**Total Departures
September 2020 vs September 2019**



Source: Nassau Airport Development Company

*All figures are net of domestic departures.

Airbnb: Snapshot of Vacation Rentals (as at September 2020)



Airbnb: Occupancy Rate Trends

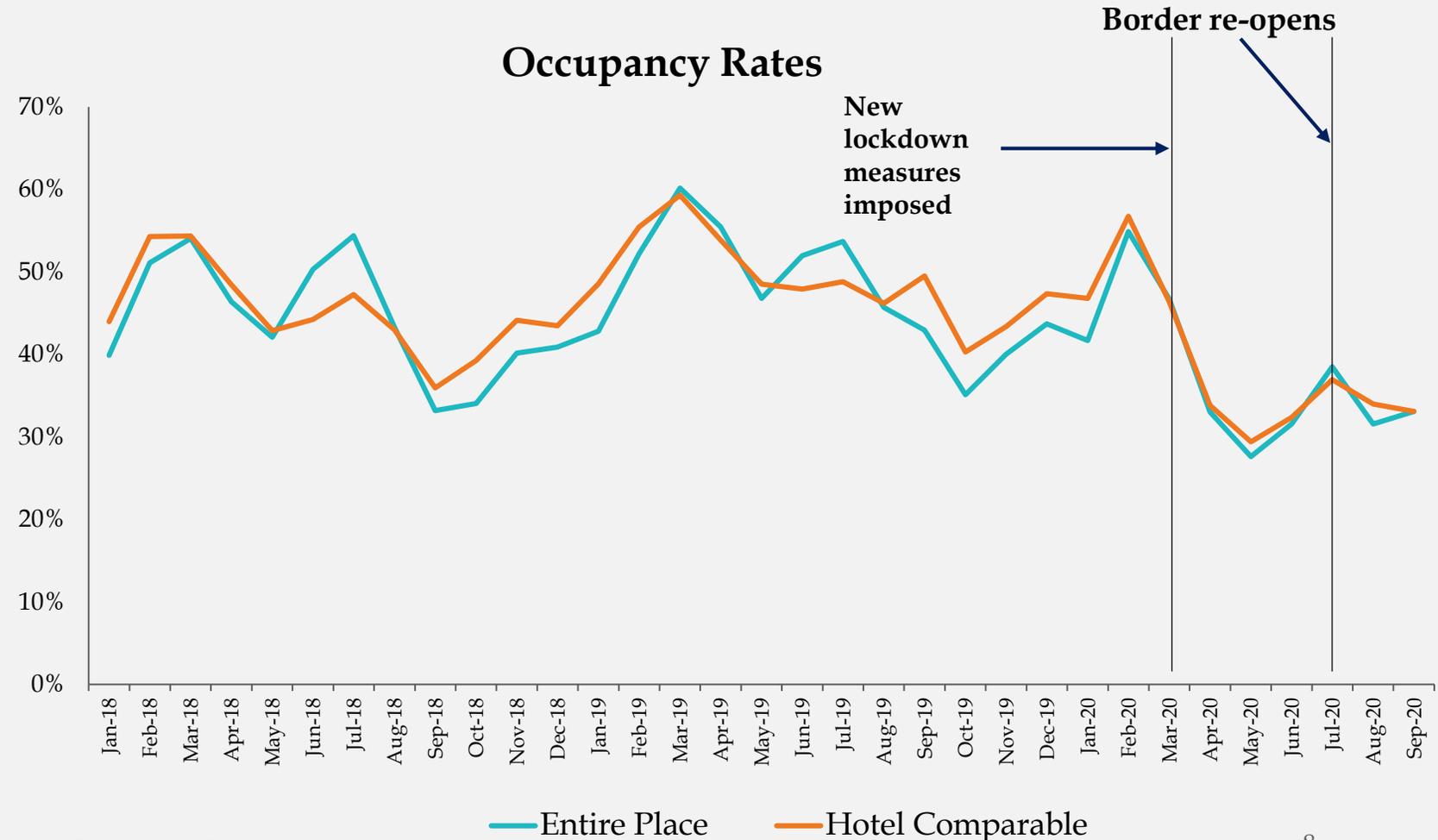
(January-September 2020 vs. 2019)

Entire Place Listings:

- The average occupancy rate decreased to 33.1% from 43.0% in the same period of 2019.

Hotel Comparable Listings:

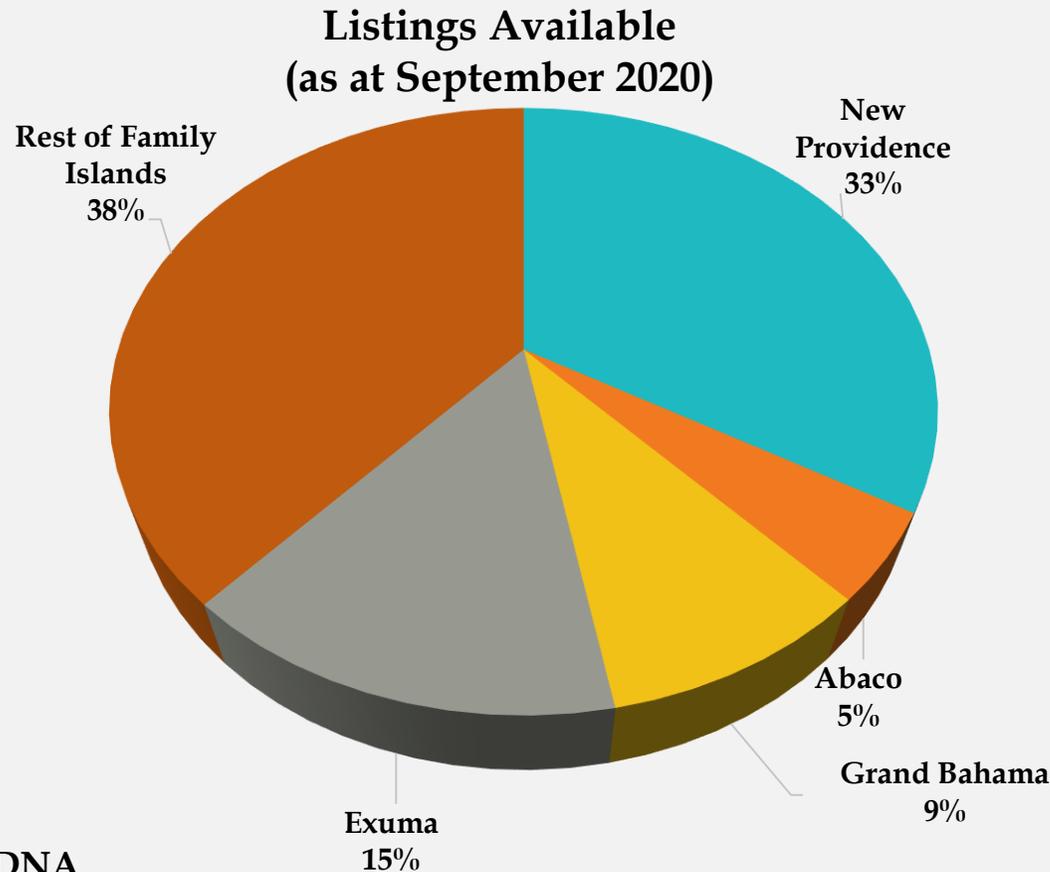
- The average occupancy rate declined to 33.1% from 49.5% last year.



Source: AirDNA

Airbnb: Market Share by Island (September 2020)

New Providence, Grand Bahama and Abaco accounted for half of all available listings, a smaller share than in 2019.



Listings for Abaco, Grand Bahama and New Providence declined by 76.1%, 38.0% and 15.5%, respectively, in September 2020, relative to the same period in 2019.

All Available Listings				
	Dec 2018	Sept 2019	Dec 2019	Sept 2020
Abaco	709	695	624	166
Grand Bahama	453	519	407	322
New Providence	1,452	1,411	1,540	1,192

An aerial photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a deeper blue further out. The beach is a wide, white sand strip with several palm trees scattered along the shore. In the foreground, there are more palm trees and some small structures or umbrellas. The sky is clear and bright.

FOREIGN INVESTMENT PROJECTS

New Foreign Investment Projects

EXUMA: Millwood International Limited:

\$65.0 million

- Multiple 3-storey and 4-storey hotel room blocks with a total of 102 bedrooms and 58 suites. Facilities will feature three 3-bedroom, single level family villas; and a 2-storey 4-bedroom family villa. Public amenities will include two pool bars, 3 swimming pools, 2 restaurants, a spa and gym, a 24-slip marina at Roker's Point and a 7,500 square feet events building; reception and back-of-house building retail space.

INAGUA: Almost Paradise Resort Limited LLC:

\$53.5 million

- This wholly owned subsidiary of Barron Petroleum will be transformed into an eco-resort. In **Phase One (\$21.0 million)**, private residences, 10 units of 1-4 bedrooms villas, administration building, kitchen, event garden,

solar farm, water treatment plant, fuel storage, and 4 boardwalks will be constructed. In **Phase 2 (\$20.0 million)** the construction of 10 units with 1-5 bedrooms, 4 hilltop villas, farm, boardwalk and spa/gym will commence. **Phase 3 (\$12.0 million)** will complete the 2-storey hotel, solar farm, water plant, and fuel storage. The development will employ 62 workers.

NEW PROVIDENCE : Viking Hill One Limited:

\$6.0 million

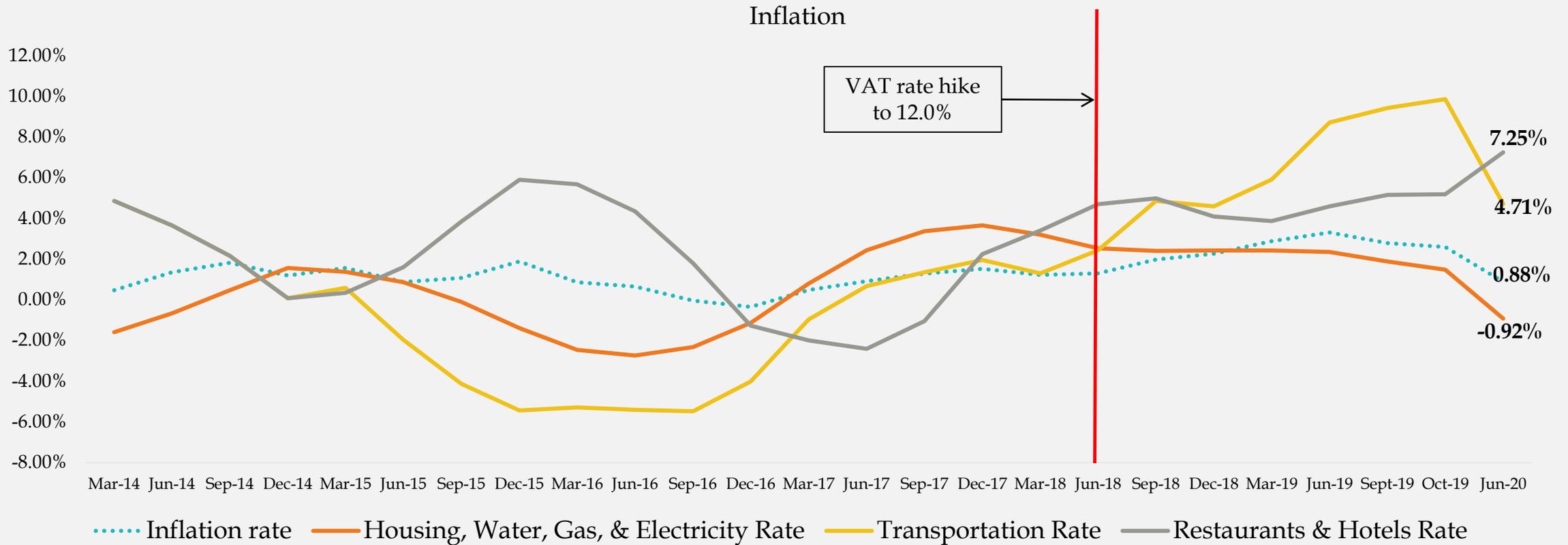
- Viking Hill One condo hotel will employ 20 workers in construction and employ an additional 10 for the operational procedures once construction is completed.



INFLATION

Retail Price Index

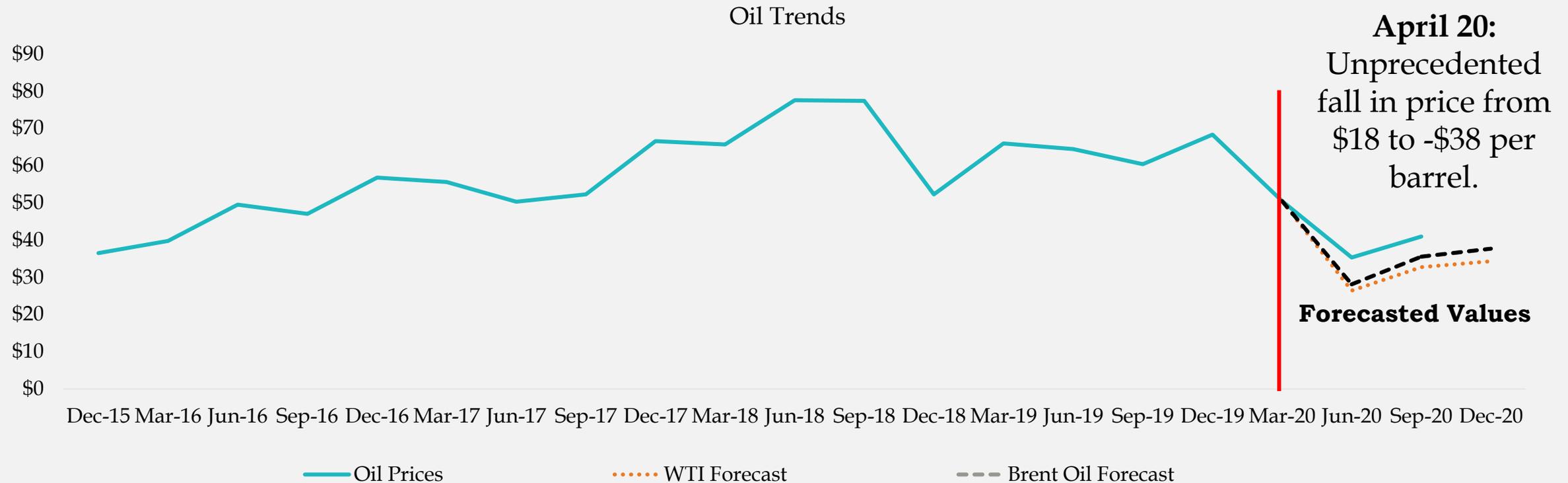
Inflation rate narrowed by 2.4 percentage points to 0.9% during the twelve months to June 2020, reflecting lower prices increases in most of the major categories.



Oil Price Trends

From January to September, crude oil prices declined by 40.1% to \$40.96 per barrel. US oil prices turned negative for the first time in history, on April 20, due to an oversupply during the COVID-19 pandemic. Prices began to rebound in May and June, as major oil producers cut production.

US\$ per barrel



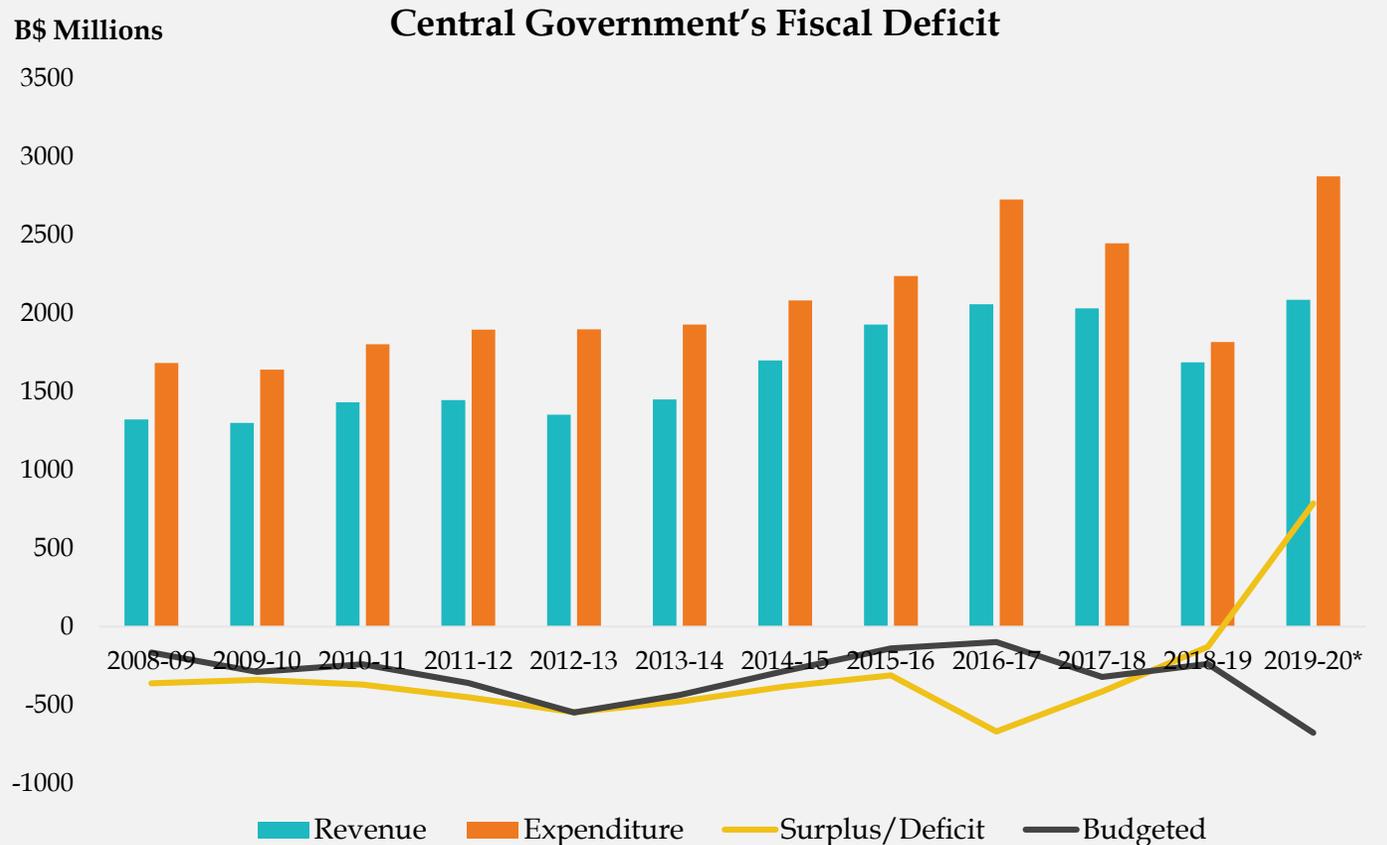


FISCAL SECTOR

Fiscal Sector (FY2019/20 vs. FY2018/19)

During FY2019/20, the deficit widened to \$788.1 million from \$219.3 million in the previous year, due to revenue losses and a rise in social spending related to COVID-19 and hurricane rebuilding works.

- Revenue declined by \$337.2 million (13.9%) to \$2,089.1 million.
- Expenditure rose by \$231.8 million (8.8%) to \$2,877.3 million.



Source: Ministry of Finance
*Data for the entire FY2019/20.

FY 2019/20 Budget Projections vs. Actual Outturn

(B\$ Millions)

	Actual Outturn	Budgeted	Difference (+/-)
Revenue	2,089.1	2,628.1	-539.0
Tax Revenue	1,849.7	2,340.3	-490.6
Non-Tax Revenue	239.4	285.7	-46.4
Expenditure	2,877.3	2,765.0	112.3
Recurrent	2,508.6	2,530.0	-21.5
Capital	368.8	235.0	133.8

An aerial photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a deeper blue further out. The beach is a wide, white sand strip with several palm trees scattered along the shore. In the foreground, there are more palm trees and some buildings, possibly a resort or a small village. The sky is clear and bright.

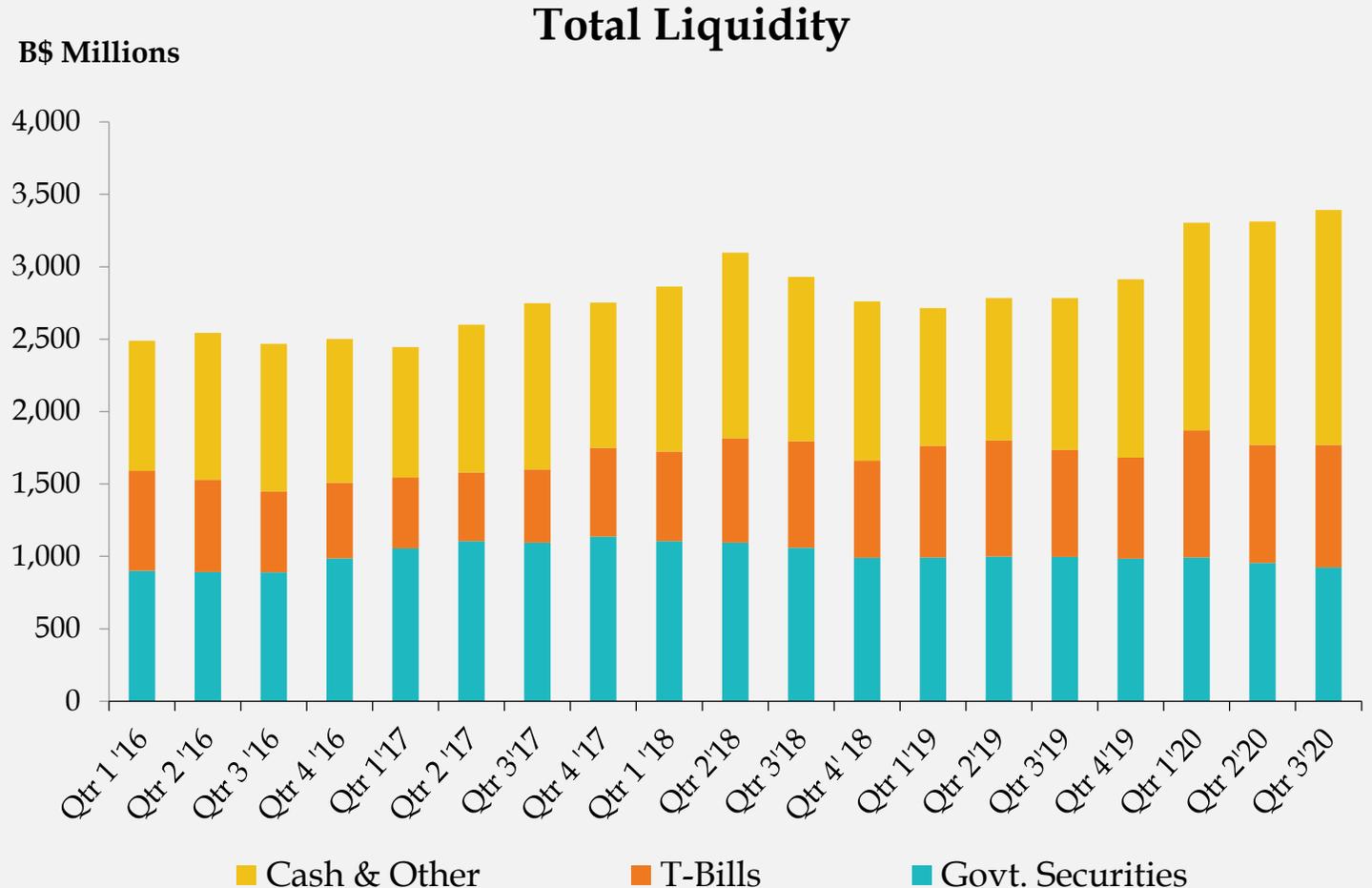
MONETARY SECTOR

Money and Banking: Liquidity Conditions

(January-September 2020 vs. 2019)

During the first nine-months of 2020, growth in liquidity was largely attributed to net foreign currency inflows from Government external borrowing activities and residual inflows from re-insurance proceeds.

- Excess liquid assets grew by \$183.1 million, a slowdown from the \$253.7 million growth in the previous year.
- Excess reserves rose by \$185.5 million, trailing the \$223.4 million gain recorded a year earlier.



Source: Central Bank of The Bahamas Note: "Other" is balances with Central Bank.

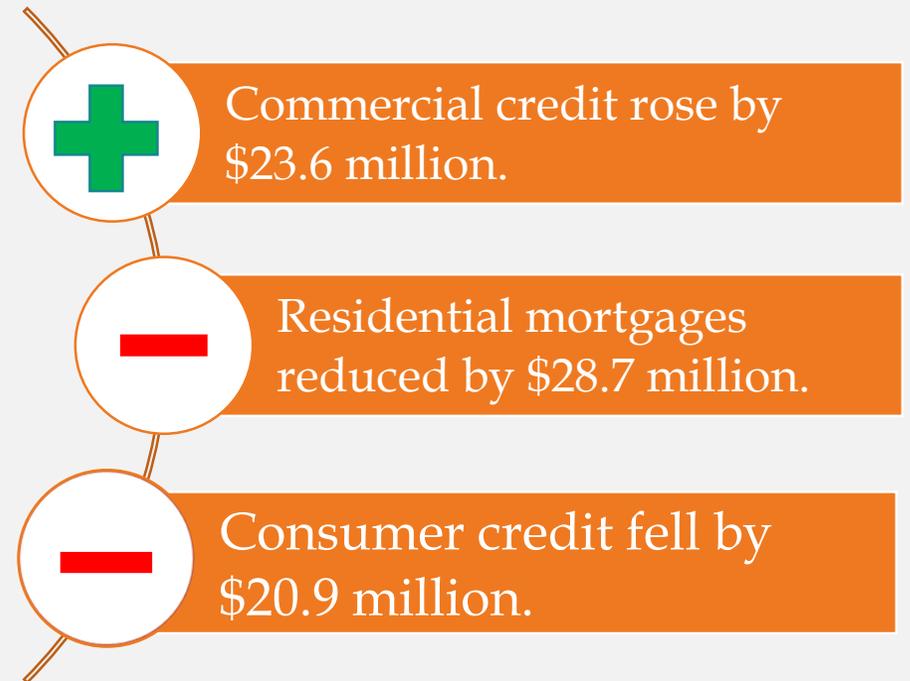
Lending Conditions

(January-September 2020 vs. 2019)

Over the first three quarters of 2020, Bahamian dollar domestic credit rose by \$62.7 million, vis-à-vis a \$21.9 million decrease in 2019.

- Net claims on the Government grew by \$90.7 million, a reversal from a \$16.2 million reduction in the previous year.
- Credit to public corporations declined by \$2.0 million, relative to the \$17.4 million falloff last year.

- Private sector credit reduced by \$26.0 million, a turnaround from an \$11.6 million growth in 2019.

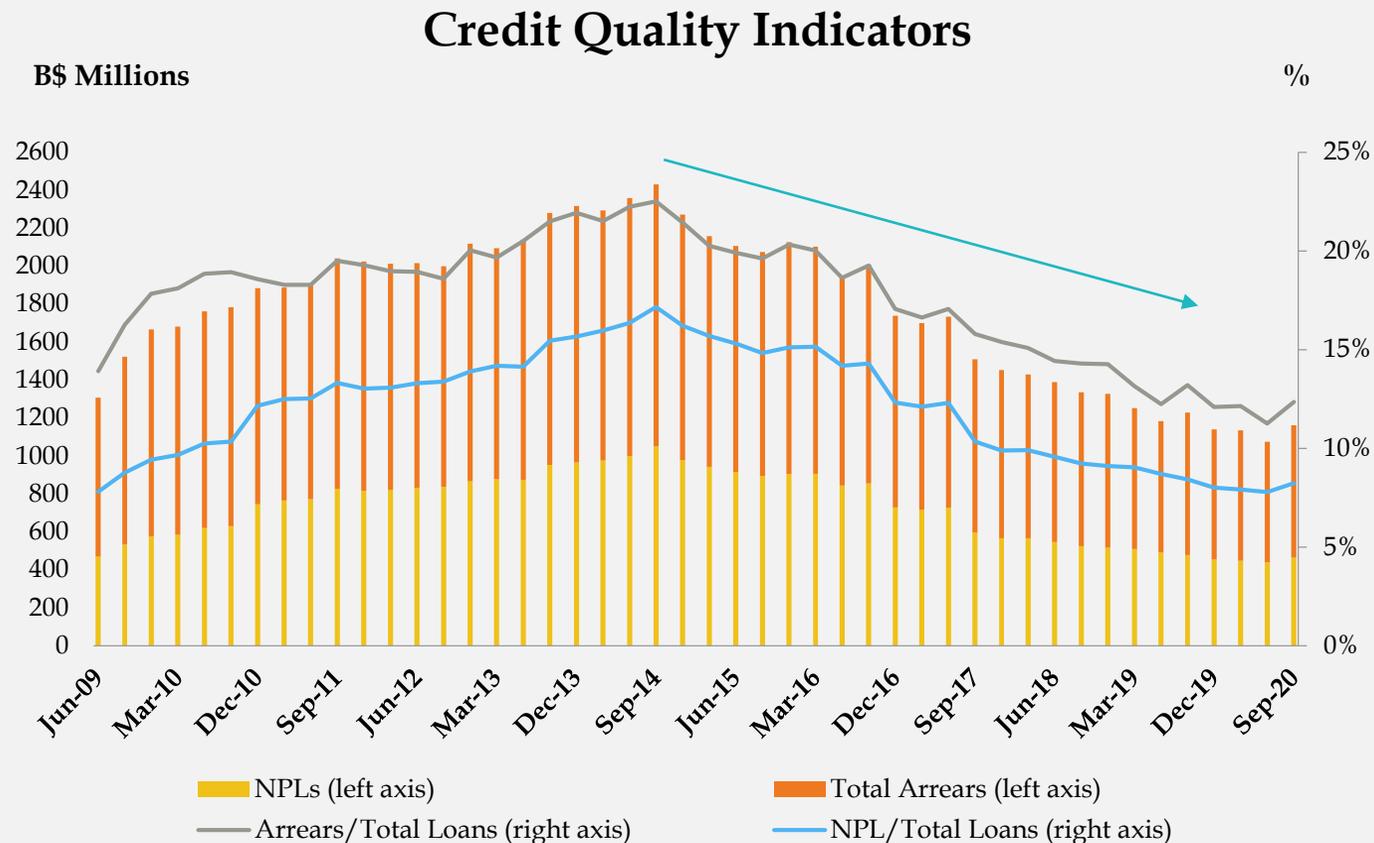


B\$ Credit Quality Indicators

(January-September 2020 vs. 2019)

- During the first three quarters of 2020, the arrears rate for private sector credit declined to 12.4% from 13.2% in the prior year.
 - The short-term arrears rate fell to 4.1% from 4.8% in September 2019, while the NPL rate decreased by 20 basis points to 8.2%.

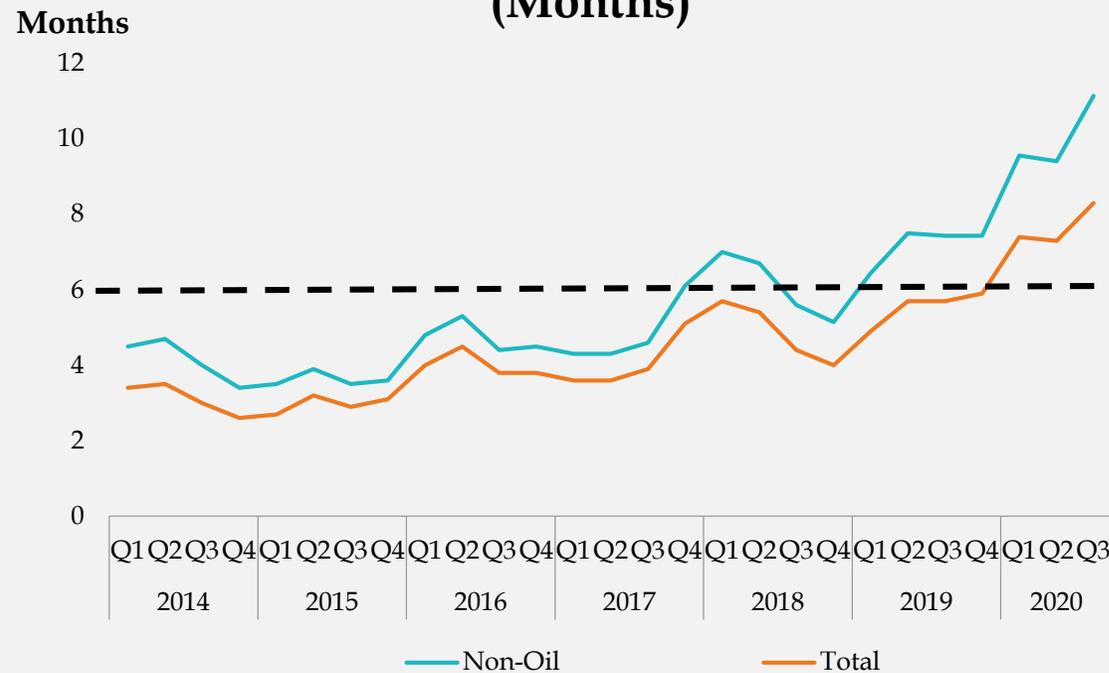
- Analysis by loan type:
 - Mortgage arrears rate narrowed to 15.3% (17.2% in 2019).
 - Consumer arrears rate increased to 10.4% (10.2% in 2019).
 - Commercial arrears rate remained at 8.3%.



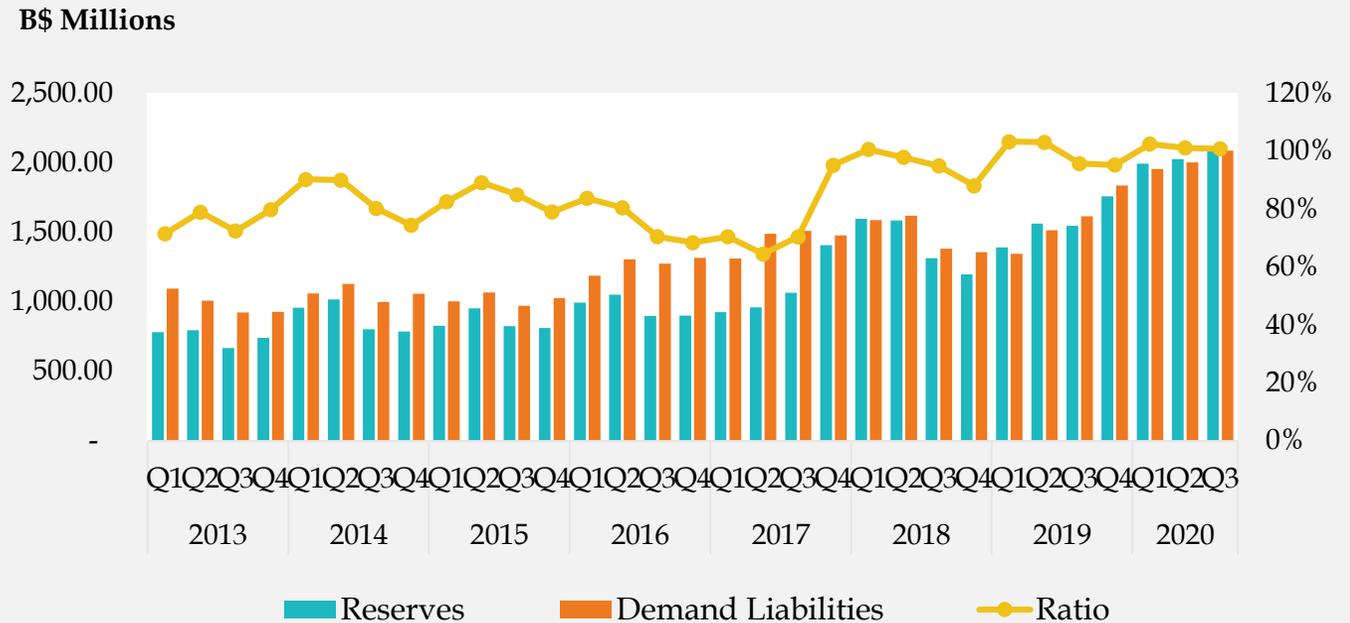
Source: Central Bank of The Bahamas

External Reserves (January-September 2020 vs. 2019)

Import Cover Ratio (Months)



External Reserves to Demand Liabilities



Source: Central Bank of The Bahamas

External reserves increased by \$347.9 million to \$2.1 billion over the nine-month period; albeit lower than the \$360.0 million growth in 2019.

- External reserves represented 100.9% of demand liabilities.
- Equivalent to 8.3 months of current year's total merchandise imports.

An aerial photograph of a tropical beach. The water is a vibrant turquoise color, transitioning to a deeper blue further out. The beach is a wide, white sand strip with several palm trees scattered along the shore. In the distance, there are some buildings and more palm trees on a small island or peninsula.

RESULTS FROM BANK LENDING CONDITIONS SURVEY

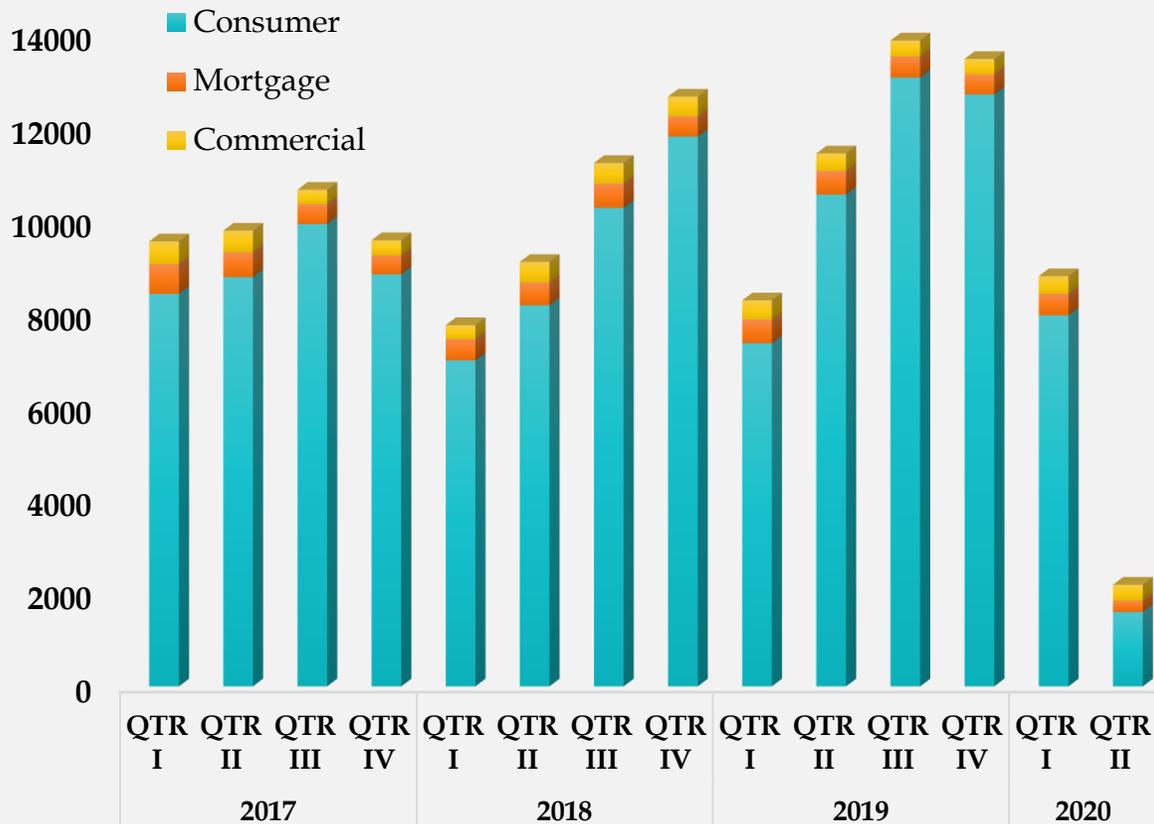
Bank Lending Conditions Overview (January – June 2020)

- During the first half of 2020, demand for credit contracted sharply across all markets.
- Application volumes fell to historically low levels.

- ✓ Applications processed: 10,979
 - A 44.3% decline over first half of 2019.
 - New Providence accounted for 86.4% applications.
- ✓ Applications approved: 85.2%
 - Most denials due to high DSR's and underemployment.
- ✓ Consumer loan request:
 - 87.0% of total requests; 66.5% were approved.
- ✓ Mortgages:
 - 28.7% fewer applications
 - But growth still in approvals for new construction.
- ✓ Commercial credit also declined vis-à-vis the first half of 2019.

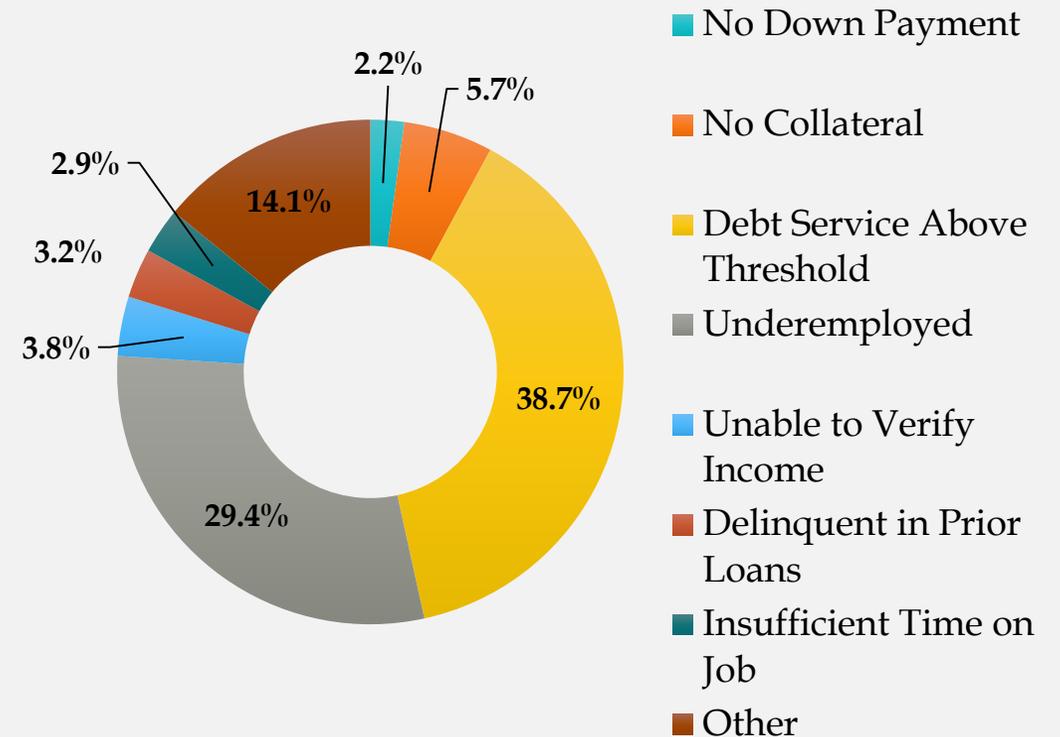
Bank Lending Conditions Overview (January - June 2020)

Loan Applications Received by Loan Type



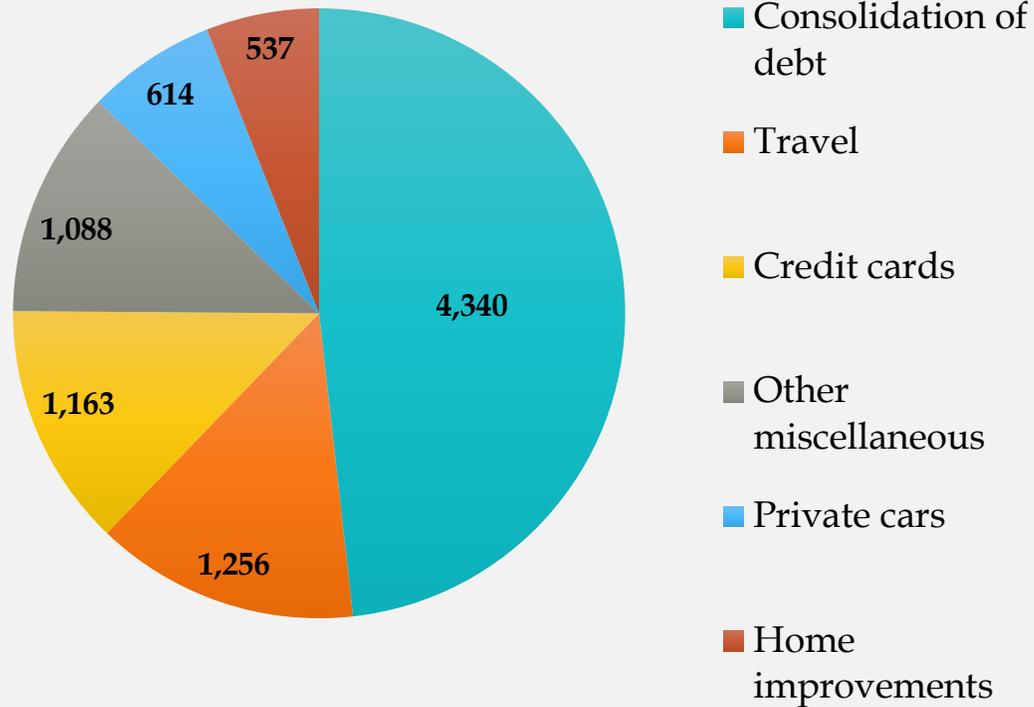
Total applications denial rate: (7.2%)

Loan Denial Reasons



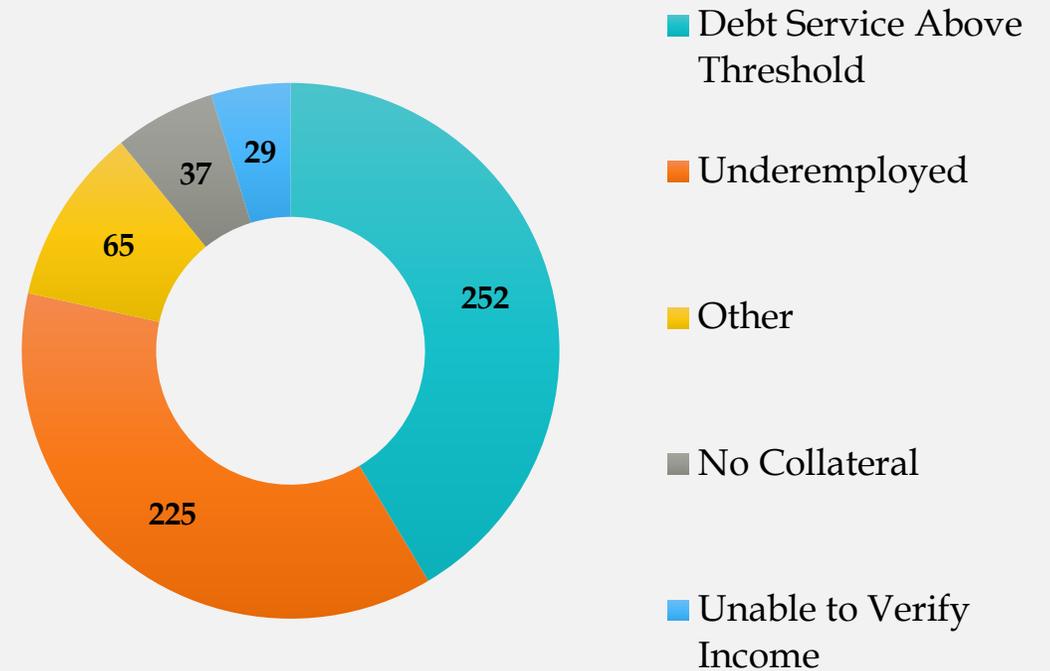
Bank Lending Conditions (Consumer Loan Applications)

Largest Categories of Consumer Loan Applications Received



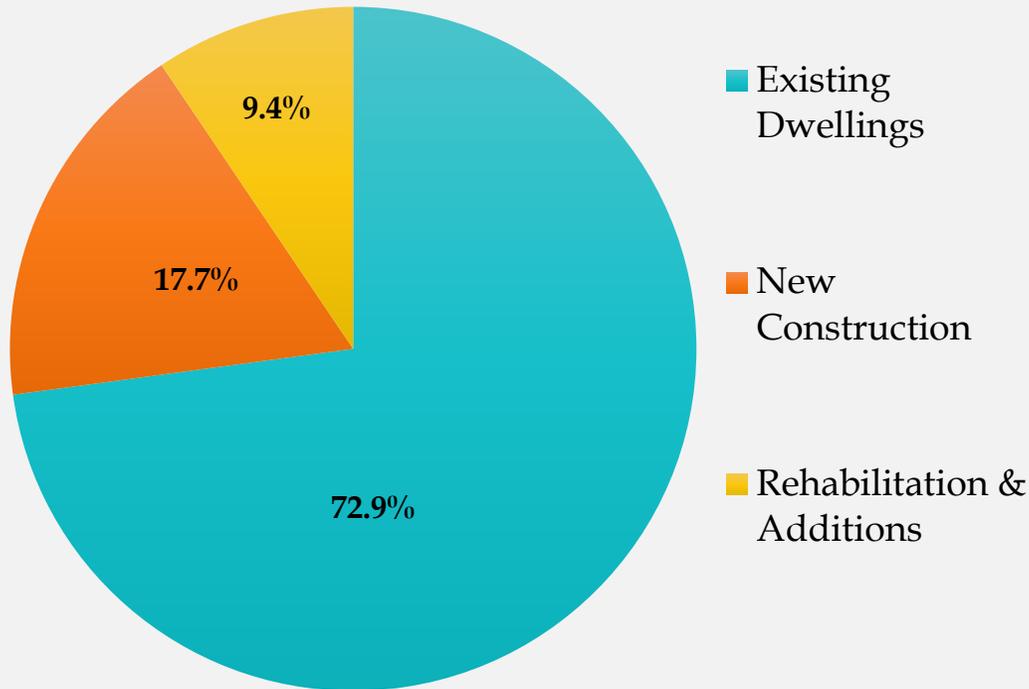
Consumer loans denial rate: (6.9%)

Reasons for Consumer Loan Denials



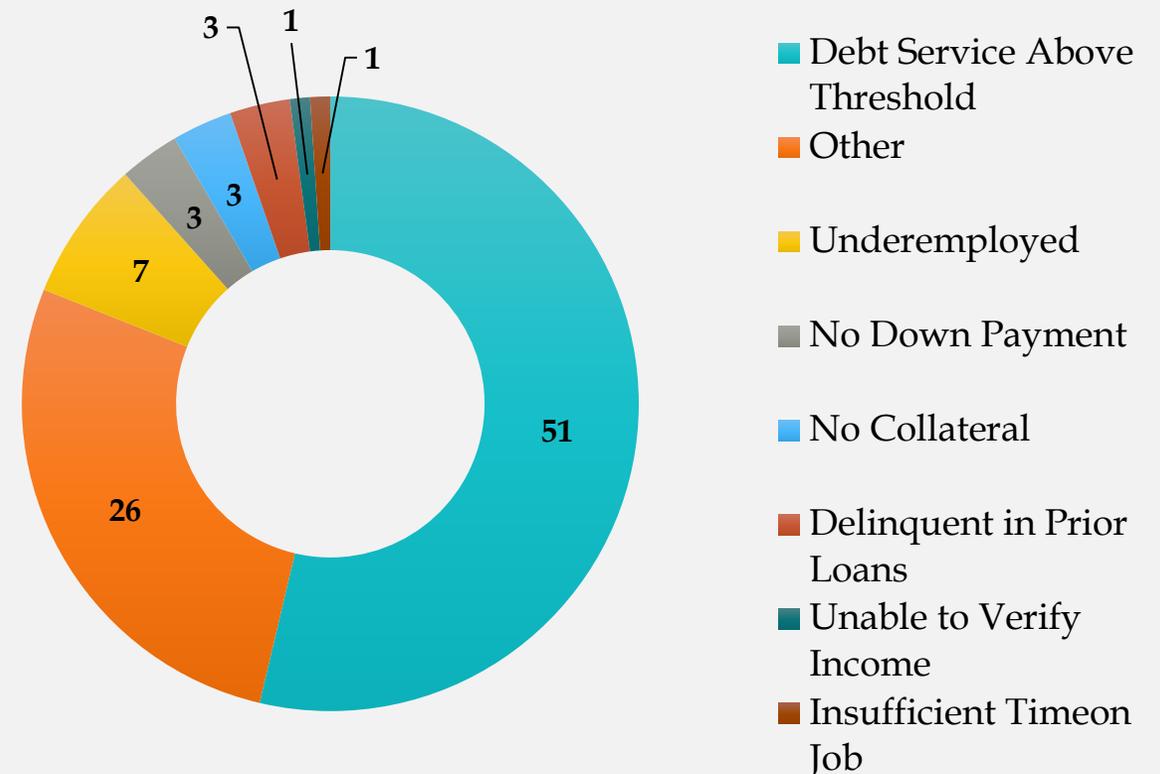
Bank Lending Conditions (Mortgage Applications)

Residential Mortgages Applications



Mortgage applications denial rate: (13.3%)

Reasons for Mortgage Loan Denials





OUTLOOK

Real Sector

- The economy is projected to contract in 2020 due to ongoing fallout from the COVID-19 pandemic and the residual effects from the passage of Hurricane Dorian.
- Tourism output is expected to contract sharply, with the pace of the recovery dependent upon the progress on the international health front and complete removal of imposed travel restrictions.
- Near-term unemployment is anticipated to remain sharply elevated, with any job gains concentrated in construction and the limited re-engagement of tourism sector employees.
- Inflation is expected to remain subdued, excluding any shocks in global oil prices.



Closed
due to
CORONAVIRUS

Fiscal Sector

- Significant expansion in the fiscal deficit during FY2020/21.
- Increased net financing needs are projected to cover outlays associated with the restoration of key infrastructure following Hurricane Dorian, along with a rise in spending for health and social welfare related to COVID-19, combined with revenue losses.
- The budgetary gap, estimated near 11.6% of GDP, is expected to be financed in large measure by external borrowing.
- The deficit will remain elevated in 2021/22.



Monetary Sector and External Reserves



Banking sector liquidity is expected to remain high over the near term, with banks maintaining a conservative lending stance. A contraction in private sector credit is anticipated.



External reserve balances are projected to end the year at a balance higher than in 2019, due to the front loading of Government's external financing operations. The cumulative reduction in external balances is expected to be delayed to 2021.

Balances are projected to remain at satisfactory levels to sustain the Bahamian dollar currency peg.

Risks to The Outlook

TOURISM

The ongoing diminished health sector confidence could discourage travel.

EXTERNAL RESERVES

Higher demand for foreign currency for reconstruction work, and a protracted halt in tourism output could accelerate drawdown in reserves.

GLOBAL

The COVID-19 pandemic may continue to weigh down the global outlook.

INFLATION

Geopolitical tensions, reduction in oil production and food supply disruptions may accelerate prices.

EMPLOYMENT

Insufficient working capital might force some permanent business closure and some permanent layoffs.

FISCAL

A prolonged slowdown in the economy from COVID-19 and diminished access to external credit markets could constrain the fiscal capacity to stabilize the economy.

The End

